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EXPLANATORY NOTES TO SCHEDULE 10-B: ESTIMATED DEVELOPMENT COSTS AND CAPITAL REQUIREMENTS

The following pages provide guidance for completing Schedule 10-B of the HMFA pro forma commonly called the Form 10. The HMFA has many form 10s dependent upon the specific mortgage loan program for which you are applying. The explanatory notes attached are for the most common program for which the HMFA receives requests (tax-exempt-permanent). If you have any specific questions regarding the completion of the form 10 and it is not addressed in the attached, do not hesitate to call a credit officer for assistance at 609-278-7519.

The types of form 10s available to you are listed below. Please use the form 10 that meets your project needs.

- A. Multifamily Projects (two types of form 10s)**
 - 1) Construction Only and Construction and Permanent Financing – with or without tax credits
 - 2) Permanent Only loans – With or without tax credits
- B. Preservation Funding (there are three types of Form 10s)**
 - 1) Construction and Permanent – with or with out tax credits
 - 2) Permanent Only loans – with REHAB (with or without tax credits)
 - 3) Permanent Only – without REHAB (with or without tax credits)
- C. Special Needs Funding (there are two types of Form 10s)**
 - 1) Construction Only and Construction and Permanent Only Financing – with or without tax credits
 - 2) Permanent Only – with or without tax credits
- D. HOPE VI Projects (there is one form 10 to be used for all types of loan purposes, i.e., Construction Only, Construction and Permanent, Permanent Only (all with or without tax credits))**

NOTE: If you are completing the form 10 in Excel, you should be aware that it is protected as it has many macros and formulas within it. You should not try to override the formulas. They are meant to provide the minimum dollar amount that the HMFA looks for when underwriting. If you believe the Form 10 estimate is too high, you will have an opportunity to discuss it with the Credit Officer that has been assigned to your project. Many of these numbers are estimates and once solid numbers have been determined, corrections and changes can be made.

You may also complete the form 10 by hand and avoid the formulas completely.

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EXPLANATORY NOTES TO SCHEDULE 10-B: ESTIMATED DEVELOPMENT COSTS AND CAPITAL REQUIREMENTS.

1. SOURCES OF FUNDS DURING CONSTRUCTION

List all funding sources to be used during the construction of the project and indicate for each whether it is a grant or a loan. If a loan, indicate whether or not it must be repaid from project revenues using a “y” for yes and an “n” for no. If it is a grant, indicate so with a “g”.

Be certain to list only funds available during construction. This will include any construction loans made by lenders other than the HMFA. If you are applying for an HMFA Construction and Permanent Loan, or an HMFA Construction Bridge Loan, these loans should be listed in this section. If HMFA is supplying a permanent loan only, **do not put it as a funding source here. There will be another section (#5) for “Sources of Funds For Permanent Closing”.** If you are also applying for *Home Express* funds, *Balanced Housing*, *Deep Subsidy* or *Green funds* they may be shown in this section if they are needed during construction. The additional cost of a fire suppression system (if not a Code requirement) may also be added to the Home Express funds up to a maximum of \$2.00 per square foot.

2. USES of FUNDS DURING CONSTRUCTION

List all costs associated with the construction of the project.

A. ACQUISITION COSTS

a) and b) *Land/Buildings*: The actual cost of acquisition is determined by HMFA after appraisal. The HMFA recognizes the lesser of the appraised value or the purchase price of the property in the most recent arm’s length transaction. This may include documented carrying costs, expenditures to obtain zoning, environmental or other governmental approvals necessary or required for the development of the project. For application purposes, place the actual costs you have committed to or paid, i.e. that which is in your *Option to Purchase, Contract, etc.*

c) and d) *Relocation and Other*: These costs are subject to State guidelines and may be approved by NJHMFA with supporting documentation.

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B. CONSTRUCTION COSTS

Construction cost estimates are based on prevailing wages as published by the New Jersey Department of Labor, unless construction financing is being provided by a source other than HMFA and the sponsor indicates that New Jersey Prevailing wages are not required.

a) *Demolition:* Estimated costs to prepare the site for construction.

b) *Off-Site Improvements:* Estimated cost of any required off-site improvements such as access roads, sewer lines, etc.

c) *Residential Structure:* The actual cost of the structure.

d) *Community Service Facility:* In order for a structure other than the residential structure to be eligible for tax-exempt financing it must be "functionally related" to the residential structure. Therefore, the sponsor should check the Internal Revenue Code for eligible costs. Ineligible costs may be funded with the sponsor's equity contribution.

e) *Environmental Clearances:* Estimated cost of obtaining all applicable permits and clearances from local, state and Federal environmental authorities.

f) *Surety & Bonding:* Premium for obtaining 100% payment and performance bonds when using HMFA construction financing. The cost for the bond is dependent upon the total construction cost. The higher the construction cost, the lower the percentage. The range is usually between $\frac{3}{4}$ percent to 2% of the construction costs. A warranty or maintenance bond may be used when using HMFA permanent financing only. Alternatively, a letter of credit equal to 10% of the permanent mortgage amount may be used for HMFA permanent financing only.

g) *Building Permits:* Cost of obtaining all required building permits. The costs vary by municipality and you should always check with the specific municipality for a schedule of their fees before submitting an application.

h) *Garage Parking:* The costs of constructing a garage or parking area for Tenants use. **NOTE:** The cost of constructing a parking garage is about \$15,000 per parking space; parking lots cost about \$700 per space.

i) *Utility Connection Fees:* Developer's should contact utility companies and determine the cost of connection.

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j) *General Requirements:* Also known, as General Conditions cost about 6% of the construction costs.

k) *Contractor Overhead and Profit:* Negotiated fee with General Contractor as approved by HMFA. **Note that the HMFA will look for the following benchmarks: Overhead should be 2% of the construction costs and Profit should be about 6% of the construction costs.**

l) *Fire Suppression System:* If your construction does not require a fire suppression system by code but because you are accepting financing through Balanced Housing, Home Express or other sources where the program does require this, the additional costs may be budgeted here. These will be offset by funds provided through the program once DCA has accepted and approved them.

m) *Green Feature Premium:* This line item is for additional costs that Sponsors incur in order to make the development more environmentally friendly and meet the criteria of the Green Homes program of DCA. These will be offset by funds provided through the program once the DCA Green Homes program application has been accepted and approved.

n) *Other:* Any other costs associated with construction.

C. DEVELOPMENT FEE

The amount of the Developer's fee allowed is limited to 15% of total development cost excluding land, working capital, marketing expenses, escrows, and operating deficit reserves, step-in-the-shoes costs and costs associated with syndication as determined by HMFA. This fee may be increased to 20% of the allowable costs when projects that are located on scattered sites, are single-family or duplex style or are designated for a special needs population. For projects seeking Low Income Housing Tax Credits, the allowable developer's fee set forth above may be reduced in order for the developer to receive an award of tax credits pursuant to N.J.A.C. 5:80-33.

In addition, the non-deferred portion of the developer fee for all projects **shall not exceed 8%** of the aforementioned development cost. The deferred portion of the developer fee shall be achieved from cash flow by way of Return on Equity after payment of debt service, operating expenses and funding of all escrows and reserves.

The developer's fee does not include fees paid to the architect, engineer, lawyer, accountant, surveyor, appraiser, professional planner, historical consultant, and environmental consultant. Executed contracts for these professionals shall be submitted to the HMFA before being recognized as a separate line item expense. All other consultant fees shall be

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included in the developer fee. Developers may pledge their fee toward meeting the equity requirement. The amount allowable will be at the discretion of the HMFA. **The developer's fee is earned on a pro-rata basis during the construction period based upon the percentage of construction completion. The un-pledged portion of the developer's fee is payable only when earned and is earned only after the entire pledged portion has been earned.**

D. CONTINGENCY

- a) Hard Costs: New construction requires 5% of construction costs. Rehabilitation requires a maximum of 10% of construction costs.
- b) Soft Costs: A maximum of 5% is acceptable.

E. PROFESSIONAL SERVICES

All contracts and fees for items (a) through (k) are negotiated between the sponsor and professional and are subject to HMFA approval with the exception of the **Appraisal/Market Study**. The HMFA will request bids and order this document. You may estimate the cost until the HMFA has the bid and you have issued the check. At that time the actual cost will be budgeted on this line. The HMFA uses the *R. F. Means Facilities Construction Cost Data* with respect to the review of the **Architect's fee**. The *R.S. Means Facilities Construction Cost Data* bases the architect's fee on a percentage of the construction costs as follows.

Construction Cost of \$ 1 million = 8% fee
\$ 5 million = 7% fee
\$10 million = 6.6% fee
\$20 million = 6.5% fee
\$30 million = 6.4% fee
\$40 million = 6.3% fee
\$50 million = 6.2% fee

NOTE: These fees are at the high end of the range; the HMFA usually sees them lower.

These fees are budgeted for operational expenses during the time construction is being completed.

F. PRE-OPERATIONAL EXPENSES

These fees are budgeted for operational expenses during the time construction is being completed.

- a) Operator Fee: On average, the rent-up fee should not exceed \$250.00 per unit.

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b) Advertising and Promotion: Fees for advertising and promotion are negotiated and subject to HMFA approval.

c) Staffing and Start-up Supplies: Costs you will entail prior to the opening of the building. This could include the salary for a marketing person, the cost of signs, Development of letterhead, etc.

d) Other: Only with supporting documentation and are subject to HMFA approval.

e) Other: Only with supporting documentation and are subject to HMFA approval.

G. CARRYING AND FINANCING COSTS

a) *Interest During Construction*: The developer should go to the HMFA Web Site at www.state.nj.us/dca/hmfa/biz/devel/multi/interest.html to ascertain the current interest rate. The calculation of the estimated construction interest is automatically calculated on the form 10 using that interest rate, the number of month's to construction completion and ½ the maximum mortgage amount.

b) *Real Estate Taxes During Construction*: The developer should obtain the local tax assessment and multiply it by the length of the construction period to determine total amount of taxes during the construction period.

c) *Insurance*: During construction, the developer is required to obtain the necessary insurance coverage for the project in accordance with procedures established by the HMFA, including multi-hazard and public liability to protect the developer's and HMFA's respective interests. Sponsors should obtain premium estimates for these policies so that they may be included in the Project's Form 10 estimated annual budget. See the HMFA Underwriting Guidelines and Financing Policy for required insurance coverage.

d) *Title and Recording Expenses*: Title insurance and recording expenses, monthly continuation searches and surveys as required in connection with monthly advances on the building loan which are not chargeable to the general contractor under the terms of the construction contract.

e) *HMFA Points*: **To reduce annual servicing fee, see the Typical HMFA Fees and Costs section of the Multifamily Underwriting Guidelines and Financing Policy.**

f) *HMFA Second Note Financing Fee*: The HMFA does not charge a loan origination fee except in cases where there is non-amortizing debt. An origination fee of two points (2%) of

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the mortgage loan amount must be budgeted for all non-amortizing debt.

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g) *HMFA Construction Loan Servicing Fee:* Fifty basis points (.50%) for the term of construction on the mortgage amount. Fifty basis points (.50%) must also be budgeted for all amortizing and non- amortizing debt used during the construction period. There is a two-point origination fee charged on the construction loan amount.

h) *Other Lender Construction Financing Fee:* Self-explanatory

i) *Tax Credit Fees:* Self-explanatory

j) *Negative Arbitrage:* Self-explanatory

k) *Cost of Issuance:* Self-explanatory

NOTE: If HMFA will be selling Bonds for the Project either before or during the time the Development is under construction, these costs should be accounted for during the construction period.

l) *Other:* Self-explanatory

3. USES OF FUNDS DURING CONSTRUCTION:

Totals of A through G: This is automatically calculated.

4. BALANCE OF FUNDS NEEDED FOR CONSTRUCTION (overage/shortage):

The difference between the amount of funds you have to construct the project and the cost to build the project. If an amount appears in this block, you will need to adjust your sources of funds during construction for this line item to balance out. This too, is automatically calculated. You may need to pledge additional developer's fee, sponsor's equity, etc. if this number is showing a shortage.

5. SOURCES OF FUNDS FOR PERMANENT CLOSING:

List all funding sources to be used in order to switch to the permanent loan. That is, if the HMFA is the construction and permanent loan provider, you will only need to place the sources of funds in this area that you will need to fund the escrows. If there is a shortage of funds for closing, show how that gap will be filled in the "Sources section" in order to balance out to zero. If the HMFA is providing the Permanent Loan Only, the HMFA mortgage loan(s) should be placed in this section along with any other funds available for the closing of the permanent loan. Keep in mind, if financing with tax-exempt 142 (d) bonds, the need to meet the 95/5 test. (ninety five percent of the mortgage loan must go to "good costs").

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6. USES OF FUNDS FOR PERMANENT CLOSING:

A. DEVELOPER'S FEE: List only the portion of funds not pledged or deferred during the construction phase.

B. HMFA Points (to reduce annual servicing fee) See *Typical HMFA Fees and Costs* in the *Multifamily Underwriting Guidelines and Financing Policy*.

C. HMFA Second Note Financing Fee Two points (2%) of the mortgage loan amount must be budgeted for all non-amortizing debt. (see G. f) above). **NOTE:** For tax credit purposes, HMFA financing fees are not counted in basis if paid at time of the permanent closing.

D. CONSTRUCTION LOAN PAYOFF:

If you have a construction loan other than from the HMFA or if the HMFA is providing a construction bridge loan, place the amount of your construction loan in this section. If the HMFA is providing both the construction and permanent loan, leave this section blank.

E. Negative Arbitrage Self-explanatory – Again, for tax credit purposes, this is not in eligible basis unless it was paid during construction. If that is the case, it is shown in Section G of Schedule 10-B (Carrying and Financing Costs During Construction). Negative arbitrage represents the difference between the rate the HMFA pays on the bond and the rate realized by the HMFA on the investment of the bond proceeds.

F. Cost of Issuance Self-explanatory – Again, for tax credit purposes, this is not in eligible basis unless it is paid during construction and in that case it would be shown in Section G of Schedule 10-B (Carrying and Financing Costs During Construction).

G. ESCROW REQUIREMENTS: 1

1) *Working Capital Escrow:*

- a) *Debt Service & Operating Expenses:* Based on 75% of the annual anticipated operating expenses, and debt service over the term of the anticipated rent up.
- b) *Rental Agency Rent-up (during rent-up):* Self-explanatory
- c) *Advertising and Promotion (during rent-up):* Self-explanatory

1 NOTE: If you are applying for a Construction and Permanent mortgage loan, these escrows will be withheld at the time of closing on the construction loan.

Sched B Instructions, 6/23/2006

This memorandum contains advisory, consultative and deliberative material and is intended only for the person(s) named as recipient(s).

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2) *Other Escrows:* Self-explanatory

- a) *Insurance:* The cost of Liability and Hazard on the facility; normally ½ year is budgeted but may be more depending on when the Policy was purchased. See the HMFA Underwriting Guidelines and Financing Policy for required insurance coverage. Initially this will be automatically calculated using the ½ year as an estimate.
- b) *Taxes:* Self-explanatory – This too, is automatically calculated at ¼ of the years estimated taxes.
- c) *Debt Service Payment & Servicing Fee for one month:* Self-explanatory
- d) *Mortgage Insurance Premium:* There may be instances where credit enhancement is required. If HUD Insurance is used as the enhancement, there will be a yearly fee paid to HUD in advance plus an additional 3 months of payment will be held in escrow at closing.
- e) *Repair and Replacement Reserves:* On occasion, under certain circumstances there may be a need to withhold funds for work to be done after closing.
- f) *Operating Deficit Reserve:* A project's cash flow analysis must achieve and maintain a projected minimum debt service ratio for 15 years of the loan to be eligible for financing. The establishment of an Operating Deficit Escrow Account (OEDA) account may be required if a project negatively trends below a 1.15 debt service coverage ratio for the term of the mortgage.
- g) *Other:* Self-explanatory
- h) *Other:* Self-explanatory

- 7. **USES OF FUNDS FOR PERMANENT CLOSING** List all costs associated with the permanent closing of the Project.
- 8. **BALANCE NEEDED TO CLOSE (overage/shortage):** If there is a shortage of funds to close, show how that gap will be filled in the *Sources of Funds for Permanent Closing* section above.
- 9. **TOTAL PROJECT COSTS** Self-explanatory; this cell automatically calculates.
- 10. **MAXIMUM MORTGAGE LOAN** - Percentage of total project cost and dollar amount.
- 11. **55% of BASIS TEST:**

The HMFA may finance projects utilizing tax-exempt bonds with the intention of being eligible for credits on 100% of the project's eligible basis by satisfying the requirements established by the Internal Revenue Service 50% (the Agency uses 55% as a safe harbor) of aggregate basis test. Meeting the 55% test is often achieved through the provision of two first mortgage notes. The first note is sized based upon the amount of debt that can be

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amortized in accordance with the HMFA's underwriting standards. The second note is sized based upon the difference between the first note and that amount of funding needed to achieve 55% coverage of the aggregate costs. This section will automatically calculate the 55% coverage as well as determine the dollar amount necessary to be financed through the First Mortgage, Second Note. The Sponsor must demonstrate a source of funds to pay off the second note, which must be collateralized in a form satisfactory to the HMFA. The final determination that a project meets the 55% test and the term of the debt to be retired is subject to HMFA bond counsel opinion.

12. REPAYMENT OF SECOND NOTE:

The second note repayment is shown in this section.

Be sure to show the sources you have to retire the second note as well as the principal amount of the second note with cumulative interest to be repaid.

In order to help a sponsor meet the equity requirement, he/she may, subject to prior approval of the Agency, pledge in whole or in part various mortgageable items in which it has an interest.

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EXPLANATORY NOTES FOR TRUST FUND MORTGAGE CALCULATION:

INSTRUCTIONS WITH REGARD TO THE CALCULATION OF TRUST FUND LOANS

When using the form 10 for a Cash Flow or Grant Trust Fund loan...you do not know what the actual TF loan will be until you find the “gap” in the financing. Therefore you must complete the Schedule 10-B fully without placing any HMFA TF amount on it. Below are directions for how you determine the loan amount. There are two sets of directions; one for loans where you are looking for “Construction and Permanent” financing and the other directs you how to determine the TF mortgage amount when you are only looking for funding for a “Permanent” mortgage.

1. For loans where the TF monies will be used during Construction:

You will notice that the first space under the *Sources of Funds During Construction* section # **1. Sources of Funds During Construction** is a white space and refers to “HMFA (SNHTF)”; **do not type in this cell.** Place all other Sources of Funds for the project and the dollar amounts in the remaining shades areas. Complete in full the *Uses of Funds During Construction* section of Schedule 10-B. When you have done this, you will see that there is a shortage of funds in section **4. Balance of Funds Needed during Construction** and shows up in red numbering. The gap will be the amount needed under “Sources During Construction”.

Example:

4. Balance of Funds Needed for Construction (overage/shortage**):** \$[(**691,254**)]

Next: Place that amount in the cell above under *Sources of Funds During Construction* and in section entitled **G. Carrying and Financing Costs During Construction, e) One time Servicing Fee [SP Needs Trust Fund Only]** where indicated (see below)

e) One Time Servicing Fee (SP. Needs Trust Fund Only) _____ 3% on \$ **691,254** \$ 20,738

The One-time Servicing Fee will be calculated and added to the carrying and financing costs. This will cause another shortage in the Balance of Funds Needed for Construction and you will need to add that to the Trust Fund mortgage amount in the Sources section as well as the One-time Servicing Fee section. Once you do that, there will still be another shortage but a much smaller one...if the shortage is less than \$50 just add that amount to the sources number and leave the servicing fee the way it is. If it is more than \$50, repeat this method until the shortage has been lowered to less than \$50.

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EXPLANATORY NOTES FOR TRUST FUND MORTGAGE CALCULATION (con't):

2. For loans where the TF monies will be used For Permanent Mortgage Only:

Now you will notice that the form 10 used for Permanent Only mortgages is showing the Escrows in the bottom section of the pro forma (**5. Sources of Funds for Permanent Financing**). The One-time Servicing fee is now at the bottom of the form 10. This is of course because you would not be paying a servicing fee on funds you had not yet borrowed.

The same principle applies to determining the Trust Fund loan amount as above.

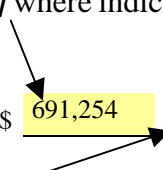
Example:

First look at line 8. Balance Needed for Permanent Closing.

8. Balance Needed for Permanent Closing (overage/shortage): \$[(691,254)]

Next: Place that amount in the cell above under *Sources of Funds Needed for Permanent Funding* and in section entitled **6. B. One time Servicing Fee [SP Needs Trust Fund Only]** where indicated (see below)

B. One Time Servicing Fee (SP. Needs Trust Fund Only) 3% on \$ 691,254 \$ 20,738



The One-time Servicing Fee will be calculated and added to the carrying and financing costs. This will cause another shortage in the Balance of Funds Needed for Permanent Closing and you will need to add that to the Trust Fund mortgage amount in the Sources section as well as the One-time Servicing Fee section. Once you do that, there may still be another shortage but a much smaller one...if the shortage is less than \$50 just add that amount to the sources number and leave the servicing fee the way it is. If it is more than \$50, repeat this method until the shortage has been lowered to less than \$50.

NOTE: In both the above cases, the final mortgage amount will automatically be sent to Schedule 10-A. You will not have to go back and insert it.